

## Message Text

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ORIGIN AID-20

INFO OCT-01 ARA-06 ISO-00 DEAE-00 CIAE-00 INR-07 IO-13

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DRAFTED BY A/DR:JBALLANTYNE/AMCDONALD:GAH

APPROVED BY S/NM:AMB. VANCE

AA/LA:ENSGIRARD II

DAA/LA:DMLION

LA/DR:CBWEINBERG

LA/DR:MDBROWN

LA/DR:JSANBRAILO(DRAFT)

LA/DR:HAHASAN(DRAFT)

LA/DR:DCHAIJ(DRAFT)

LA/DR:SESMITH(DRAFT)

LA/SA:JEYRE (PHONE)

LA/DP:AHEYMAN (DRAFT)

LA/DP:ASILVER (DRAFT)

SER/INC:MWAMPLER (DRAFT)

S/NM:TCOX (DRAFT)

GC/LA:JKESSLER (DRAFT)

ARA/LA:RPACE (DRAFT)

S/NM:MLCHESE (DRAFT)

----- 011461

P 291710Z OCT 76

FM SECSTATE WASHDC

TO AMEMBASSY LA PAZ PRIORITY

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TO AMBASSADOR STEDMAN FROM AMBASSADOR VANCE AND AA/LA

E.O. 11652: N/A

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SUBJECT: COCA CROP SUBSTITUTION PROJECT

REF: (A) LA PAZ 8071 (B) STATE 243569

(1) IN RESPONSE TO YOUR OCTOBER 8 CABLE (REF A) YOU SHOULD BY NOW HAVE A DRAFT LIST OF INDICATORS HAND-CARRIED BY STEVE WINGERT OF USAID ON OCTOBER 6. THESE INDICATORS ARE THOSE S/NM AND AID FELT SHOULD BE INCORPORATED INTO THE AMENDED PROJECT PAPER (PP) FOR THE SUBJECT PROJECT, AND UTILIZED FOR MONITORING CONTROL/ENFORCEMENT PROGRESS SIMULTANEOUSLY WITH COCA CROP SUBSTITUTION PILOT ACTIVITIES. IN HIS COVER LETTER, RONALD NICHOLSON ASKED FOR EMBASSY AND USAID COMMENTS BY OCTOBER 25 ON THESE INDICATORS, AND ON OUR DRAFT DESCRIPTION OF THE SPECIAL SURVEY (FOR WHICH THE CROP SUBSTITUTION PROJECT TOTAL WILL BE INCREASED BY 50,000 DOLS). WE WOULD ALSO APPRECIATE YOUR COMMENTS ON HOW, AND BY WHOM, THE COMBINED CONTROL/ENFORCEMENT - COCA CROP PILOT PROJECT INDICATORS WILL BE MONITORED.

(2) THERE SEEMS TO BE SOME MISUNDERSTANDING AS TO THE NATURE OF THE SPECIAL SURVEY. AS THE DRAFT DESCRIPTION INDICATES, NEITHER THE SURVEY NOR A POSSIBLE FY 1977 - 78 PROJECT RESULTING THEREFROM WOULD BE "SOCIAL" IN THE TRADITIONAL COMMUNITY DEVELOPMENT SENSE. (THE CROP SUBSTITUTION PP ALREADY CONTAINED FUNDS FOR STUDIES OF SOCIO-CULTURAL FACTORS AND SOCIAL INFRASTRUCTURE NEEDS FOR FOLLOW-ON CROP SUBSTITUTION PROJECTS IN FY 1979 - 80.) SOME SMALL SOCIAL INFRASTRUCTURE ITEMS, E.G. SCHOOLS AND HEALTH CLINICS, MAY BE IDENTIFIED IN THE SPECIAL SURVEY AS PRODUCER FELT NEEDS AND FEASIBLE INVESTMENTS FOR A NEAR-TERM PROJECT. HOWEVER, IT IS NOT EXPECTED THAT SUCH INVESTMENTS WOULD DOMINATE.

(3) THE PURPOSES OF THE SURVEY AND POSSIBLE PROJECT (AGAIN REFERRING TO THE DRAFT DESCRIPTION WHICH YOU SHOULD HAVE BY NOW) ARE EXPLICITLY DIRECTED TOWARD MITIGATING POTENTIAL RESISTANCE TO COCA CROP PRODUCTION CONTROLS AND TO THE EARLY PHASES OF COCA CROP SUBSTITUTION. A PROJECT (IF ONE EMERGES FROM THE SURVEY AS FEASIBLE AND NECESSARY) WOULD BE RESPONSIVE TO THE COCA PRODUCERS THEMSELVES, I.E. THEIR FELT NEEDS, RATHER THAN PROMOTING THE KIND OF REGIONAL DEVELOPMENT SUGGESTED IN LIMITED OFFICIAL USE

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THE LAST ABS SUBMISSION (ACCELERATED RURAL DEVELOPMENT IN THE YUNGAS AND CHAPARE PROJECT). THE ABS PROJECT (DISAPPROVED BY AID, REF B) WAS INTENDED, "TO INCREASE THE PER CAPITA INCOME OF SMALL FARMERS IN THE YUNGAS AND CHAPARE THROUGH INCREASING THE PRODUCTION OF FOODSTUFFS". THE SECONDARY PURPOSE WAS, "TO INCREASE THE WELL-BEING OF THE RURAL POPULATION OF COCA PRODUCERS". THE ABS PROPOSAL CONTAINED NO MECHANISM FOR SPECIFIC TARGETING TO

COCA PRODUCERS TO ENCOURAGE COOPERATION WITH PRODUCTION CONTROLS OR CROP SUBSTITUTION (EXCEPT, PERHAPS, UNDER THE TECHNOLOGY DEVELOPMENT AND EXTENSION COMPONENTS APPARENTLY DESIGNED TO AUGMENT FIELD FACILITIES AND STAFF ALREADY PROVIDED UNDER THE CROP SUBSTITUTION PILOT PROJECT). FURTHER, IT IS DOUBTFUL THAT THIS PROJECT WOULD HAVE BEEN CLEARLY LINKED IN THE MINDS OF COCA PRODUCERS WITH GOB INTENT TO ASSIST THEM AS CONTROLS GO INTO EFFECT. IN REVIEWING THE ABS PROPOSAL, IT APPEARS THAT HALF OF THE 10 MILLION DOLS LOAN AND ALL OF THE 750,000 DOLS GRANT WOULD FLOW TO THE GOB (IN THE FORM OF VEHICLES, EQUIPMENT, CONSTRUCTION, AND TECHNICAL ADVISORY SERVICES), RATHER THAN TO THE RURAL COCA PRODUCERS. A PROJECT WHOSE FOCUS IS NOT DIRECTLY ON INDIVIDUAL PRODUCERS OR RELATED TO THEIR EXPRESSED NEEDS IS UNLIKELY TO GENERATE THE KIND OF PRODUCER GOOD-WILL AND COOPERATION WHICH WE BELIEVE ESSENTIAL EARLY-ON TO INSURE SUCCESS OF BOTH THE CONTROL AND CROP SUBSTITUTION EFFORTS.

(4) YOU MENTIONED TIMELINESS AS A CRITICAL FACTOR, AND WE AGREE FULLY. HOWEVER, IT WOULD APPEAR THAT THE TIMING ON EITHER PROJECT WOULD BE ABOUT THE SAME. THE SPECIAL SURVEY SHOULD GET UNDERWAY IMMEDIATELY, WITH SURVEY RESULTS AND A PID TO BE SUBMITTED IN APRIL, 1977, AND THE PP TO BE SUBMITTED FOR CONSIDERATION SOME 4-5 MONTHS LATER. AT THE TIME OF THE PID REVIEW WE WILL DECIDE WHETHER A PRP IS NECESSARY, PER PARA 2A REF B. SOURCE OF FUNDING (AID OR NARCOTICS) WILL BE BASED UPON THE NATURE OF PROJECTS PROPOSED AS A RESULT OF THE SURVEYS. FURTHER, THE KIND OF PROJECT ENVISIONED BY THE RECENT STATE-AID TEAM TO BOLIVIA SHOULD INVOLVE SMALL, LOW-COST, AND QUICKLY PLACED INVESTMENTS WHICH COULD BE DELIVERED DIRECT TO COCA PRODUCERS IN A SHORT PERIOD OF TIME. THIS CONTRASTS LIMITED OFFICIAL USE

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SHARPLY WITH THE TYPES OF INVESTMENTS RECOMMENDED IN THE ABS PROPOSAL, WHICH REQUIRE MUCH LONGER EXECUTION PERIODS. WE ARE INFORMED THAT MECHANISMS FOR IMPLEMENTATION OF THE PROJECT PROPOSED IN THE ABS ARE NOT, AS SUGGESTED IN REF A, ACTUALLY IN PLACE. IT APPEARS THE AGRICULTURAL BANK'S (BAB) SMALL FARMER CREDIT DELIVERY SYSTEM IS ONLY JUST NOW BEING WORKED OUT UNDER AID'S TWO-YEAR OLD AGRICULTURE SECTOR LOAN AND THE AGRICULTURE MINISTRY HAS NOT YET BEGUN THE PLANNED EXPANSION OF RESEARCH AND EXTENSION SERVICES IN THE RURAL AREAS. THE FIRST RURAL ACCESS ROADS LOAN (A FOUR-YEAR PROJECT) WAS SIGNED ONLY LAST MONTH; THEREFORE ITS IMPLEMENTATION MECHANISMS ARE AS YET UNTESTED. FINALLY, THERE IS EVIDENCE UNDER AID'S TWO CURRENT RURAL ELECTRIFICATION LOANS TO SUGGEST THAT ACTUAL CONSTRUCTION OF AN ELECTRIFICATION NETWORK MAY TAKE 4-5 YEARS, AND IS

SUBJECT TO SUBSTANTIAL, UNANTICIPATED DELAYS. AS YOU WILL RECALL, THE STATE-AID TEAM TO BOLIVIA ENCOUNTERED A MUCH GREATER GOB COMMITMENT TO EARLY COMMENCEMENT OF PRODUCTION CONTROL THAN WAS EXPECTED. EVEN ALLOWING FOR SLIPPAGE IN THEIR SCHEDULE FOR ISSUANCE OF A SUPREME DECREE AND COMPLETION OF PRODUCER REGISTRATION, THE PSYCHOLOGICAL AND POSSIBLY THE TANGIBLE IMPACTS OF GOB PRODUCTION CONTROL EFFORTS WILL CERTAINLY BEGIN TO BE FELT OVER THIS NEXT YEAR. PROJECTS INVOLVING LONG-TERM IMPLEMENTATION SCHEDULES, SUCH AS THAT PROPOSED IN THE ABS, COULD NOT BE EXPECTED TO COUNTERACT THE NEAR-TERM IMPACT OF THE GOB'S CONTROL/ENFORCEMENT PROGRAM. A PROJECT COMING OUT OF THE SPECIAL SURVEY WOULD BE DESIGNED EXPRESSLY TO MITIGATE THIS IMPACT OVER THE NEXT 2-3 YEARS, WHICH APPEARS TO BE THE MINIMUM AMOUNT OF TIME WE HAVE TO WAIT FOR THE EXISTING PILOT PROJECT TO PRODUCE VIABLE ALTERNATE CROP SUBSTITUTION PACKAGES.

(5) GIVEN THE ARGUMENTS ABOVE SUPPORTING AID'S DECISION TO DISAPPROVE THE ABS PROPOSAL, THERE DOES NOT APPEAR TO BE A FIRM BASIS FOR RE-OPENING THE MATTER HERE. AID/W HAS NOT, HOWEVER, CLOSED THE DOOR ON THE CONCEPTS EXPRESSED IN THE ABS. INDEED, IT SEEMS LIKELY THAT THE VARIOUS STUDIES TO BE CARRIED OUT UNDER THE CROP SUBSTITUTION PILOT PROJECT (E.G. MARKETING INFRASTRUCTURE AND CREDIT NEEDS OF COCA PRODUCERS) WILL LEAD THE MISSION TO LIMITED OFFICIAL USE

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INCLUDE SOME OR ALL OF THE ABS PROJECT CONCEPTS IN THE DESIGN OF FOLLOW-ON PROJECTS FOR FY 1979 - 80 EXPANSION OF THE COCA CROP SUBSTITUTION PROGRAM. IN SUMMARY, WE ARE HOPING THAT WE CAN CONTINUE TO COUNT ON THE FINE SUPPORT OF THE EMBASSY AND USAID IN CARRYING OUT THE SPECIAL SURVEY LEADING TO A PROJECT TO MITIGATE RESISTANCE TO COCA PRODUCTION CONTROLS IN THE SHORT-TERM. WE FEEL THIS IS ESSENTIAL BOTH TO CONVINCE THE GOB OF OUR SUPPORT FOR THEIR EFFORTS, AND TO HELP PROTECT OUR PRESENT AND ANTICIPATED INVESTMENTS IN THE BOLIVIA NARCOTICS PROGRAM. KISSINGER

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